Ephraim Mogale Local Municipality

Annual Financial Statements
for the year ended 30 June 2018
Audited By : Office of the Auditor General (Polokwane)
Published 31 August 2018

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	Provision of basic services
Council	
Mayor	Cllr Kupa CR
Speaker	Cllr Mothogwane MD
Chief Whip	Cllr Modisha LB
Traditional leaders	Kgoshi - Lehwelere-Matlala MA
	Kgoshi - Matlala MM
	Kgoshi - Rahlagane MP
Councillors	Cllr Aphane MK
	Cllr Boshielo C
	Cllr De Beer FJC
	Cllr Jacobs PR
	Cllr Kekana MJ
	Cllr Lenstoane MC
	Cllr Lenstoane RM
	Cllr Mabaso TL
	Cllr Madileng DO
	Cllr Makanyane GN
	Cllr Makola ML
	Cllr Maloka MF
	Cllr Manasoe MT
	Cllr Mashigo MPM
	Cllr Mashoeshoe RHS
	Cllr Matlala MF
	Cllr Matji PT
	Cllr Mohlala R
	Cllr Moimana GMH
	Cllr Molatudi ML
	Cllr Monama M
	Cllr Motsepe MJ
	Cllr Phokwane RG
	Cllr Ranoto P
	Cllr Sedibane FS
	Cllr Sindana RR
	Cllr Tema SA
	Cllr Letsena N (Appointed 01 September 2017)
	Cllr Tshiguvho EM
Grading of local authority	2
Capacity of local authority	Low capacity
Municipal demarcation code	LIM471
Accounting Officer	Mrs MM Mathebela
Chief Finance Officer (CFO)	Mrs K Ramosibi

General Information

Registered office	No. 13 Ficus street Civic centre Marble Hall Limpopo 0450
Business address	No. 13 Ficus street Civic centre Marble Hall Limpopo 0450
Postal address	PO Box 111 Marble Hall Limpopo 0450
Bankers	First National Bank (Primary bank account) ABSA Bank VBS Nedbank
Auditors	Audited By : Office of the Auditor General (Polokwane)
Attorneys	Mohale Incorporated Attorneys Kgohlishi Abie Mamabolo Attorneys Noko Maimela Attorneys Machaka NC Incorporated Attorneys

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Abbreviations

SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented as part of these finacial statements.

The annual financial statements set out on pages 7 to 78, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018 and were signed by:

Mathebela MM
Municipal Manager

31 August 2018

Audit Committee Report

We are pleased to present our report for the annual financial year ended 30 June 2018.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet at least 4 times per annum as per its approved terms of reference. During the current year x number of meetings were held.

Name of member	Number of meetings attended
Letsela M (Chairperson)	6
Ravhudzulo PK	5
Nevondwe TL	6
Chuene VK	6
Nchabeleng MF	6

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166 (2) (a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The audit committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Accounting Officer of the municipality during the year under review.

Evaluation of annual financial statements

The audit committee has:

- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed changes in accounting policies and practices;
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Risk Management

The committee discussed risk management reports received from the municipality's risk management committee. Having considered management's strides in institutionalizing enterprise risk management in the municipality; the committee is pleased with outcomes thereof. However; management is urged to put more effort in ensuring that enterprise risk management is embedded in the municipality's operational processes all across. Such will be achieved through continuous monitoring mechanism such as making risk management a standing item in all management meetings.

Chairperson of the Audit Committee

Date: ______________________

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June 2018.

1. Review of activities

Main business and operations

Net deficit of the municipality was R 60 852 853 (2017: surplus R 48 416 836).

2. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus of R 957 767 799 and that the municipality's total assets exceed its liabillities by R 957 880 349.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is certain for the forseeable medium term revenue and expenditure framework and medium term budget periods as submitted to National Treasury. The only significant of uncertainty of these is that the accounting officer has to resolve the possible outcome of the placing under administration of VBS mutual bank that may place a restriction on expansion and capital projects funded from own funds by the municipality.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting policies

The implementation of mscoa (municipal standard chart of accounts) was performed from 1 July 2017 for the items presented as current year:

The impact on the results of the municipality in adopting the above transaction base that created a difference in presentation is reflected in note reflected as restatements of prior year as part of these annual financial statements.

The annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board..

5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Mathebela MM	South African

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Inventories	10	754 565	720 347
Receivables from exchange transactions	4&5	815 494	430 379
Receivables from non-exchange transactions	4&6	558 927	6 489 546
VAT receivable	9	-	2 626 526
Consumer debtors from exchange transactions	7	14 045 600	12 785 354
Consumer debtors from non-exchange transactions	7	29 602 005	33 950 661
Cash and cash equivalents	3	68 566 058	124 746 340
		114 342 649	**181 749 153**
Non-Current Assets			
Investment property	11	87 629 001	87 699 701
Property, plant and equipment	12	837 449 088	834 239 521
Heritage assets	13	112 550	106 798
Eskom Deposits	8	450 463	386 721
		925 641 102	**922 432 741**
Total Assets		**1 039 983 751**	**1 104 181 894**
Liabilities			
Current Liabilities			
Finance lease obligation	16	235 884	1 702 294
Payables from exchange transactions	14	32 391 777	42 543 876
VAT payable	9	88 602	-
Consumer deposits	15	1 399 552	1 426 273
Unspent conditional grants and receipts	17	1 801 783	124 695
Provisions	18	285 568	285 568
		36 203 166	**46 082 706**
Non-Current Liabilities			
Finance lease obligation	16	-	368 255
Employee benefit obligation	19	21 276 921	21 797 106
Provisions	18	24 623 315	17 206 381
		45 900 236	**39 371 742**
Total Liabilities		**82 103 402**	**85 454 448**
Net Assets		**957 880 349**	**1 018 727 446**
Reserves			
Revaluation reserve		112 550	106 798
Accumulated surplus		957 767 799	1 018 620 648
Total Net Assets		**957 880 349**	**1 018 727 446**

* See Note 47

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Sale of goods		149 607	467 019
Service charges	20	47 739 711	52 851 093
Rental of facilities and equipment		361 866	112 897
Licences and permits		3 894 749	4 016 065
Other income	21	816 776	2 915 909
Interest received	22	13 713 715	12 412 299
Total revenue from exchange transactions		**66 676 424**	**72 775 282**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	33 428 446	31 425 047
Transfer revenue and other receipts			
Government grants & subsidies	24	170 366 217	158 219 637
Basic Electricity levy		7 031 603	-
Fines, Penalties and Forfeits		1 010 220	1 256 769
Total revenue from non-exchange transactions		**211 836 486**	**190 901 453**
Total revenue		**278 512 910**	**263 676 735**
Expenditure			
Employee related costs	25	(74 433 473)	(70 975 660)
Remuneration of councillors	26	(13 388 894)	(11 328 932)
Repairs and Maintenance		(5 445 836)	(6 838 644)
Depreciation and amortisation	27	(47 311 650)	(43 969 857)
Impairment loss VBS Bank		(83 658 548)	-
Finance costs	28	(3 597 669)	(3 493 578)
Rental Expense		(1 606 980)	-
Debt Impairment	29	(20 840 867)	(9 402 871)
Bad debts written off	29	(5 785 065)	-
Collection costs		-	(21 500)
Bulk purchases	30	(30 469 771)	(29 357 077)
Contracted services	31	(14 551 505)	(13 009 399)
Grants and Subsidies		(2 571 011)	(3 227 958)
General Expenses	32	(40 023 886)	(28 423 786)
Total expenditure		**(343 685 155)**	**(220 049 262)**
Operating (deficit) surplus		**(65 172 245)**	**43 627 473**
Profit / (Loss) on disposal of fixed assets		(137 551)	(4 085 520)
Fair value adjustments	33	1 094 300	7 348 000
Actuarial gains/losses	19	3 362 643	1 526 883
		4 319 392	**4 789 363**
(Deficit) surplus for the year		**(60 852 853)**	**48 416 836**

* See Note 47

Ephraim Mogale Local Municipality
Annual Financial Statements for the year ended 30 June 2018

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	81 647	960 188 682	960 270 329
Adjustments			
Correction of Assets	-	10 014 100	10 014 100
Bank and Rates	-	1 030	1 030
Balance at 01 July 2016 as restated*	**81 647**	**970 203 812**	**970 285 459**
Changes in net assets			
Surplus for the year	-	48 416 836	48 416 836
Revaluation Adjustment - Heritage assets	25 151	-	25 151
Total changes	25 151	48 416 836	48 441 987
Opening balance as previously reported	106 798	1 010 887 550	1 010 994 348
Adjustments			
Correction of Assets prior year	-	10 014 100	10 014 100
Change in amortisation of assets	-	(707 242)	(707 242)
Prior year adjustments	-	(1 573 756)	(1 573 756)
Balance at 01 July 2017 as restated*	**106 798**	**1 018 620 652**	**1 018 727 450**
Changes in net assets			
Surplus for the year	-	(60 852 853)	(60 852 853)
Changes in revaluation surplus arising from changes in existing decommissioning, restoration and similar liabilities	5 752	-	5 752
Total changes	5 752	(60 852 853)	(60 847 101)
Balance at 30 June 2018	**112 550**	**957 767 799**	**957 880 349**

* See Note 47

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Government grants and subsidies		172 043 305	148 980 441
Services		78 162 985	71 898 354
Interest income		10 055 167	12 412 299
Other receipts		6 983 199	2 359 317
		267 244 656	235 650 411
Payments			
Employee costs		(86 741 036)	(79 881 866)
Suppliers		(103 640 086)	(82 316 226)
Finance costs		(1 715 383)	(260 524)
		(192 096 505)	(162 458 616)
Net cash flows from operating activities	35	**75 148 151**	**73 191 795**
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(51 204 874)	(52 630 160)
Proceeds from sale of property, plant and equipment	12	1 711 106	-
Capital investment VBS Investment		(80 000 000)	-
Net cash flows from investing activities		**(129 493 768)**	**(52 630 160)**
Cash flows from financing activities			
Finance lease payments		(1 834 665)	(1 537 792)
Net increase/(decrease) in cash and cash equivalents		**(56 180 282)**	**19 023 843**
Cash and cash equivalents at the beginning of the year		124 746 340	105 722 497
Cash and cash equivalents at the end of the year	3	**68 566 058**	**124 746 340**

* See Note 47

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sale of goods	515 100	(303 452)	**211 648**	149 607	**(62 041)**	1
Service charges	53 654 000	(57 000)	**53 597 000**	47 739 711	**(5 857 289)**	2
Rental of facilities and equipment	152 000	62 000	**214 000**	361 866	**147 866**	3
Licences and permits	10 817 000	(1 160 000)	**9 657 000**	3 894 749	**(5 762 251)**	4
Other income - (rollup)	1 771 932	(965 460)	**806 472**	816 776	**10 304**	5
Interest received	11 970 000	3 903 000	**15 873 000**	13 713 715	**(2 159 285)**	6
Total revenue from exchange transactions	**78 880 032**	**1 479 088**	**80 359 120**	**66 676 424**	**(13 682 696)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	35 127 972	813 360	**35 941 332**	33 428 446	**(2 512 886)**	7
Transfer revenue						
Government grants & subsidies	172 167 996	-	**172 167 996**	170 366 217	**(1 801 779)**	8
Levies	-	-	**-**	7 031 603	**7 031 603**	
Fines, Penalties and Forfeits	263 000	-	**263 000**	1 010 220	**747 220**	9
Total revenue from non-exchange transactions	**207 558 968**	**813 360**	**208 372 328**	**211 836 486**	**3 464 158**	
Total revenue	**286 439 000**	**2 292 448**	**288 731 448**	**278 512 910**	**(10 218 538)**	
Expenditure						
Personnel	(82 322 000)	(2 625 000)	**(84 947 000)**	(74 433 473)	**10 513 527**	10
Remuneration of councillors	(12 596 000)	(44 000)	**(12 640 000)**	(13 388 894)	**(748 894)**	11
Depreciation and amortisation	(45 000 000)	-	**(45 000 000)**	(47 311 650)	**(2 311 650)**	12
Impairment loss/ Reversal of impairments	-	-	**-**	(83 658 548)	**(83 658 548)**	13
Finance costs	(422 256)	-	**(422 256)**	(3 597 669)	**(3 175 413)**	14
Lease rentals on operating lease	(425 000)	(1 450 000)	**(1 875 000)**	(1 606 980)	**268 020**	15
Debt Impairment	(7 513 788)	(6 870 828)	**(14 384 616)**	(20 840 867)	**(6 456 251)**	16
Bad debts written off	-	-	**-**	(5 785 065)	**(5 785 065)**	
Repairs and maintenance	(10 854 000)	(262 000)	**(11 116 000)**	(5 445 836)	**5 670 164**	17
Bulk purchases	(31 703 472)	-	**(31 703 472)**	(30 469 771)	**1 233 701**	18
Contracted Services	(13 509 000)	579 000	**(12 930 000)**	(14 551 505)	**(1 621 505)**	19
Transfers and Subsidies	(2 910 000)	509 000	**(2 401 000)**	(2 571 011)	**(170 011)**	20
General Expenses	(62 898 484)	7 258 828	**(55 639 656)**	(40 023 886)	**15 615 770**	21
Total expenditure	**(270 154 000)**	**(2 905 000)**	**(273 059 000)**	**(343 685 155)**	**(70 626 155)**	
Operating deficit	**16 285 000**	**(612 552)**	**15 672 448**	**(65 172 245)**	**(80 844 693)**	
Loss on disposal of assets and liabilities	-	1 950 552	**1 950 552**	(137 551)	**(2 088 103)**	23
Fair value adjustments	-	-	**-**	1 094 300	**1 094 300**	22
Actuarial gains/losses	-	-	**-**	3 362 643	**3 362 643**	23
	-	**1 950 552**	**1 950 552**	**4 319 392**	**2 368 840**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Deficit before taxation	**16 285 000**	**1 338 000**	**17 623 000**	**(60 852 853)**	**(78 475 853)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**16 285 000**	**1 338 000**	**17 623 000**	**(60 852 853)**	**(78 475 853)**	

Reconciliation

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	900 000	-	**900 000**	754 565	**(145 435)**	24
Receivables from exchange transactions	-	-	**-**	815 494	**815 494**	24
Receivables from non-exchange transactions	-	-	**-**	558 927	**558 927**	24
Consumer debtors	8 000 000	-	**8 000 000**	43 647 605	**35 647 605**	
Other Debtors	20 000 000	-	**20 000 000**	450 463	**(19 549 537)**	24
Cash and cash equivalents	160 926 000	(32 823 000)	**128 103 000**	68 566 058	**(59 536 942)**	24
	189 826 000	**(32 823 000)**	**157 003 000**	**114 793 112**	**(42 209 888)**	
Non-Current Assets						
Investment property	60 000 000	-	**60 000 000**	87 629 001	**27 629 001**	24
Property, plant and equipment	840 000 000	-	**840 000 000**	837 449 088	**(2 550 912)**	24
Heritage assets	-	-	**-**	112 550	**112 550**	24
	900 000 000	**-**	**900 000 000**	**925 190 639**	**25 190 639**	
Total Assets	**1 089 826 000**	**(32 823 000)**	**1 057 003 000**	**1 039 983 751**	**(17 019 249)**	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	**-**	235 884	**235 884**	25
Payables from exchange transactions	40 000 000	-	**40 000 000**	32 391 767	**(7 608 233)**	25
VAT payable	-	-	**-**	88 602	**88 602**	
Consumer deposits	1 800 000	-	**1 800 000**	1 399 552	**(400 448)**	25
Unspent conditional grants and receipts	-	-	**-**	1 801 783	**1 801 783**	25
Provisions	305 000	-	**305 000**	285 568	**(19 432)**	25
	42 105 000	**-**	**42 105 000**	**36 203 156**	**(5 901 844)**	
Non-Current Liabilities						
Employee benefit obligation	-	-	**-**	21 276 921	**21 276 921**	25
Provisions	30 000 000	-	**30 000 000**	24 623 315	**(5 376 685)**	25
	30 000 000	**-**	**30 000 000**	**45 900 236**	**15 900 236**	
Total Liabilities	**72 105 000**	**-**	**72 105 000**	**82 103 392**	**9 998 392**	
Net Assets	**1 017 721 000**	**(32 823 000)**	**984 898 000**	**957 880 359**	**(27 017 641)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Revaluation reserve	-	-	**-**	112 550	**112 550**	26
Accumulated surplus	1 017 721 000	(32 823 000)	**984 898 000**	957 767 809	**(27 130 191)**	26
Total Net Assets	**1 017 721 000**	**(32 823 000)**	**984 898 000**	**957 880 359**	**(27 017 641)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Receipt from goods, services, rates and fines	72 702 000	8 780 000	**81 482 000**	78 162 958	**(3 319 042)**	27
Grants	172 168 000	-	**172 168 000**	172 043 305	**(124 695)**	27
Interest income	10 963 000	2 187 000	**13 150 000**	10 055 167	**(3 094 833)**	27
Other income	13 519 000	(2 367 000)	**11 152 000**	6 983 199	**(4 168 801)**	27
	269 352 000	**8 600 000**	**277 952 000**	**267 244 629**	**(10 707 371)**	
Payments						
Employee costs	(82 322 000)	(2 625 000)	**(84 947 000)**	(86 741 036)	**(1 794 036)**	27
Suppliers	(136 818 000)	9 539 000	**(127 279 000)**	(103 622 920)	**23 656 080**	27
Other payments	-	-	**-**	(1 715 383)	**(1 715 383)**	26
	(219 140 000)	**6 914 000**	**(212 226 000)**	**(192 079 339)**	**20 146 661**	
Net cash flows from operating activities	**50 212 000**	**15 514 000**	**65 726 000**	**75 165 290**	**9 439 290**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash flows from investing activities						
Proceeds from sale of property, plant and equipment	-	1 951 000	**1 951 000**	1 711 106	**(239 894)**	28
Investment made VBS Bank	-	-	**-**	(80 000 000)	**(80 000 000)**	
Capital Assets	(61 285 000)	51 861 000	**(9 424 000)**	(51 222 040)	**(41 798 040)**	28
Net cash flows from investing activities	**(61 285 000)**	**53 812 000**	**(7 473 000)**	**(129 510 934)**	**(122 037 934)**	
Cash flows from financing activities						
Repayment of borrowing	-	(1 448 000)	**(1 448 000)**	(1 834 655)	**(386 655)**	29
Net increase/(decrease) in cash and cash equivalents	(11 073 000)	67 878 000	**56 805 000**	(56 180 299)	**(112 985 299)**	
Cash and cash equivalents at the beginning of the year	130 000 000	5 502 000	**135 502 000**	124 746 340	**(10 755 660)**	30
Cash and cash equivalents at the end of the year	**118 927 000**	**73 380 000**	**192 307 000**	**68 566 041**	**(123 740 959)**	
Reconciliation						

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures are rounded to the nearest rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Receivables

The municipality assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for receivables is calculated on a portfolio basis. For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Allowance for slow moving, damaged and obsolete inventory

An assessment is made of net realisable value at the end of each reporting period. A write down of inventory to the lower of cost or net realisable value is subsequently provided. Management has made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the surplus or deficit.

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

1.2 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

Value in use of cash generating assets

The municipality reviews and tests the carrying value of cash generating assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors such as exchange rates, inflation and interest rates.

Value in use of non-cash generating assets

The municipality reviews and tests the carrying value of non-cash generating assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

Goodwill is tested on an annual basis for impairment.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the property, plant and equipment and other assets. This estimate is based on industry norms and on the pattern in which an asset's future economic benefit or service potential is expected to be consumed by the municipality. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives and decrease depreciation charge where useful lives are more than previously estimated useful lives.

Post retirement benefits and other long-term benefits

The present value of the post retirement and long-term benefit obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement and long-term benefit obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the post retirement and long-term benefit obligations. In determining the appropriate discount rate, the municipality considers the market yields at the reporting date on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension or other long-term liability. Where there is no market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for post retirement and other long-term obligations are based on current market conditions. Additional information is disclosed in Note 19.

Effective interest rate

The municipality uses the government bond rate to discount future cash flows.

1.2 Significant judgements and sources of estimation uncertainty (continued)

Allowance for impairment of financial assets

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services, or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

The gains or losses arising from the retirement or disposal of investment property are the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:
- Managements' intended usage of the property; and
- the extent to which it is owner occupied.

The nature OR type of properties classified as held for strategic purposes are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements refer note 28.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

1.4 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment are initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement part is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plan and equipment.In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is depreciated over the expected useful lives to the estimated residual value. The depreciation charge for each period is recognised in surplus or deficit. Small assets with cost or deemed cost of less than R1000 will not be subject to perpetual restatement of useful life. Management indicated that due to the nature of these item like chairs and dustbins, once the initial depreciation period has passed it will be deemed to be fully used and any futher use to be incidential by nature and that asset values should not be attached to these high risk incidential benefits.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	20-30 years
Community assets	Straight line	5-25 years
Infrastructure assets	Straight line	2-100 years
Land	Straight line	Indefinite
Landfill site	Straight line	2-100 years
Motor vehicle	Straight line	5 years
Office equipment	Straight line	4-7 years

Accounting Policies

1.4 Property, plant and equipment (continued)

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate in terms of the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.

Assets of the municipality are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements refer note 32.

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements refer note 12.

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore certain items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, rehabilitation and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

The related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of non-cash-generating assets.

1.6 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

The municipality recognises heritage assets as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value can be measured reliably.

When the municipality holds a heritage asset, but on initial recognition it does not meet the recognition criteria because it cannot be reliably measured, information of such heritage asset is disclosed in note 13 - Heritage assets.

Heritage assets are initially measured at cost.

When a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

1.6 Heritage assets (continued)

Subsequent to initial measurement after recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at a date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

The municipality derecognises heritage assets on disposal, or when no future economic benefits or service potential are expected from its used or disposal.

The gain or loss arising from the derecognition of a heritage asset is the difference between the net disposal proceeds and the carrying amount and is included in surplus or deficit when the item is derecognised.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements refer note 28.

1.7 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating asset are as follows:
The extent to which the asset is used for service delivery.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset is initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.

Value in use

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

1.7 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

1.7 Impairment of cash-generating assets (continued)

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.8 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating asset are as follows:
The extent to which the asset is used for service delivery.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

1.8 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

Accounting Policies

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Classification

Class	Category
Eskom Deposits	Financial asset measured at cost
Trade and other receivables from exchange transactions	Financial asset measured at amortised cost
Trade and other receivables from non exchange transactions	Financial asset measured at amortised cost
Cash and other Cash equivalents	Financial asset measured at cost
Vat receivable	Financial asset measured at cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Finance lease obligation	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

1.9 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm’s length exchange motivated by normal operating considerations. Valuation techniques include using recent arm’s length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants will consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted when the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in the carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

1.9 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognises the asset; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.10 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the transaction amount can be measured reliably.

Accounting Policies

1.10 Statutory receivables (continued)

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the these charges are accounted for in terms of the municipality's accounting policy on Revenue from exchange transactions or Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:
- significant financial difficulty of the receivable, which may be evidenced by an application for debt counselling, business rescue or an equivalent;
- it is probable that the receivable will enter sequestration, liquidation or other financial re-organisation;
- a breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied); and
- adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:
- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or

1.10 Statutory receivables (continued)

- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the receivable; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The municipality considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered.

The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.13 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payment basis, in accordance with Section 15(2) of the VAT Act No.89 of 1991.

Accounting Policies

1.14 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered services to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

1.14 Employee benefits (continued)

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

The municipality accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- actuarial gains and losses;
- past service cost.

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

1.14 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other long-term employee benefits

The municipality has an obligation to provide other long-term service allowance benefits to all of its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method to determine is the present value of the obligations.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- actuarial gains and losses, which shall all be recognised immediately.

Accounting Policies

1.14 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the municipality is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the municipality has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.15 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

1.15 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

Where the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.7 and 1.8.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.16 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited / debited against accumulated surplus / deficit. Prior year adjustments, relating to income and expenditure, are credited / debited against accumulated surplus when retrospective adjustments are made.

1.17 Accounting by principals and agents

Identification

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Identifying whether an entity is a principal or an agent

The assessment of whether the municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the municipality re-assesses whether it act as a principal or an agent.

Assessing which entity benefits from the transactions with third parties

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:
- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

1.17 Accounting by principals and agents (continued)

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.18 Revenue from exchange transactions

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Interest and dividends

Revenue arising from the use by others of municipal assets yielding interest and dividends or similar distributions is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Accounting Policies

1.19 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Property rates

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

1.19 Revenue from non-exchange transactions (continued)

Debt forgiveness and assumption of liabilities

The municipality recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality. The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by receivables.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting municipality.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the municipality recognises services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

Concessionary loans received

A concessionary loan is a loan granted to or received by the municipality on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, are exchange transactions and are accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the cash flow statement recognises revenue as and when it satisfies the conditions of the loan agreement.

1.20 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.21 Borrowing costs

Borrowing costs are interest and other expenses incurred by the municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

Accounting Policies

1.22 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilitiFs in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as revenue and the contractual receipts are recognised as an operating lease asset or liability.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in the statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Any contingent rents are expensed in the period in which they are incurred.

1.23 Grant in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase of sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving raise to the transfer occurred.

1.24 Comparative figures

Reclassification of certain accounts were made in order to comply with the requirements of Municipal Standard Chart of Accounts (MSCOA). The reclassifications have no impact on the net asset value of the municipality

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. Refer to note 47.

1.25 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.26 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.27 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.28 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality’s supply chain management policy.

Irregular expenditure is recorded in the notes to the financial statements when confirmed. The amount recorded is equal to the value of the irregular expenditure incurred, unless it is impractical to determine, in which case reasons therefore must be provided in the notes.

1.29 Budget information

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2017/06/01 to 2018/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.30 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

1.30 Related parties (continued)

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.31 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Figures in Rand	2018	2017 Restate

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality did not adopted any standards and interpretations that are effective for the current financial year and that are relevant to its operations:

2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

GRAP 12 (as amended 2016): Inventories

Amendments to the Standard of GRAP on Inventories resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 12 on Inventories (IPSAS 12) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12)
- IPSASB amendments: To align terminology in GRAP 12 with that in IPSAS 12. The term "ammunition" in IPSAS 12 was replaced with the term "military inventories" and provides a description of what it comprises in accordance with Government Finance Statistics terminology

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has early adopted the amendment for the first time in the 2018 annual financial statements.

The impact of the amendment is not material.

2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

GRAP 18 (as amended 2016): Segment Reporting

Amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The most significant changes to the Standard are:

- General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the amendment is for years beginning on or after 01 April 2019

The municipality expects to adopt the amendment for the first time when the Minister sets the effective date for the amendment.

The municipality is unable to reliably estimate the impact of the amendment on the annual financial statements.

GRAP 20: Related parties

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 19: Liabilities to Pay Levies

This Interpretation of the Standards of GRAP provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

To clarify the accounting for a liability to pay a levy, this Interpretation of the Standards of GRAP addresses the following issues:

- What is the obligating event that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

Consensus reached in this interpretation:

- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation;
- An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period;
- The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period;
- The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time;
- If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in this Interpretation of the Standards of GRAP; and
- An entity shall recognise an asset, in accordance with the relevant Standard of GRAP, if it has prepaid a levy but does not yet have a present obligation to pay that levy.

The effective date of the interpretation is not yet set by the Minister of Finance.

The municipality expects to adopt the interpretation for the first time when the Minister sets the effective date for the interpretation.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

2. New standards and interpretations (continued)

2.4 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	5 000	5 000
Bank balances	68 561 058	99 231 502
Short term deposits	-	25 509 838
	68 566 058	**124 746 340**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings or historical information about counterparty default rates.

During the financial year VBS Mutual bank experienced financial difficulties which led to breach of contracts when some of the matured investments and deposits could not be honoured. The reserve bank has placed VBS Mutual bank under curatorship in 2018. The Municipality had a short term deposit of R 83 658 548. The Municipality accounts for short term deposits as financial assets carried at amortised cost. The curator and National Treasury have only guaranteed retail depositors up to R100 000 per depositor, corporate and Municipalities deposits are not guaranteed. The Municipality has impaired the total investment of R 83 658 548 since there are no future cash flow expected from the VBS Mutual bank. The letter issued by the curator on the 11 March 2018 stated that the bank will cease to accrue further interest as at the date it has been placed under curatorship. As such the R83 658 548 has been determined using a straight line method to accrue interest since end of February and 11 March 2018.

Credit rating		
F3	68 643 774	16 840 104
F3	-	25 509 838
F3	-	81 257 084
Under Curatorship - VBS Mutual bank	84 076 833	-
	152 720 607	**123 607 026**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

3. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
First National Bank - cheque account	68 643 774	16 840 104	1 530 093	68 645 367	16 259 934	948 682
First National Bank - Cheque account	-	-	-	-	107	32 503
ABSA Bank account	-	81 257 084	79 224 293	74 298	82 971 462	80 903 900
Nedbank Call Account	-	25 509 837	23 837 412	-	25 509 837	23 837 412
Cash on hand	6 200	-	-	5 000	5 000	-
VBS BANK - Account Type - Long Term Deposit	84 076 833	-	-	-	-	-
Total	**152 726 807**	**123 607 025**	**104 591 798**	**68 724 665**	**124 746 340**	**105 722 497**

4. Receivables

	2018	2017
Gross balances		
Receivables- other	815 494	430 379
Fines	5 019 711	4 095 261
	5 835 205	**4 525 640**
Less: Allowance for impairment		
Fines	(4 460 784)	(3 390 780)
Net balance		
Receivables- other	815 494	430 379
Fines	558 927	704 481
	1 374 421	**1 134 860**
Fines		
Current (0 -30 days)	57 000	81 500
31 - 60 days	58 000	120 000
61 - 90 days	59 750	59 000
91 - 120 days	4 844 961	3 834 760
121 - 365 days	(4 460 784)	(3 390 779)
	558 927	**704 481**
Other (specify)		
> 365 days	815 494	430 379
Reconciliation of allowance for impairment		
Balance at beginning of the year	(3 390 780)	(2 540 117)
Contributions to allowance	(1 070 004)	(850 663)
	(4 460 784)	**(3 390 780)**

5. Receivables from exchange transactions

	2018	2017
Consumer receivables - Other	815 494	430 379

Receivables from exchange transactions pledged as security

None of the receivables were pledged as a security.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

6. Receivables from non-exchange transactions

Government grant and subsidies	-	5 785 065
Fines	558 927	704 481
	558 927	**6 489 546**

Receivables from non-exchange transactions pledged as security

None of the receivables were pledged as security.

7. Consumer debtors

Gross balances		
Rates	61 544 932	52 619 293
Electricity	6 869 860	9 475 524
Refuse	3 194 415	2 265 014
Basic electricity - Non Exchange	4 084 552	-
Other (specify)	22 089 321	16 740 797
	97 783 080	**81 100 628**
Less: Allowance for impairment		
Rates	(33 847 190)	(18 667 602)
Electricity	(3 427 668)	(2 846 785)
Refuse	(2 119 230)	(1 586 740)
Basic electricity - Non Exchange	(2 180 289)	-
Other (specify)	(12 561 098)	(11 263 486)
	(54 135 475)	**(34 364 613)**
Net balance		
Rates	27 697 742	33 951 691
Electricity	3 442 192	6 628 739
Refuse	1 075 185	678 274
Basic electricity - Non Exchange	1 904 263	-
Other	9 528 223	5 477 311
	43 647 605	**46 736 015**
Included in above is receivables from exchange transactions		
Electricity	3 442 192	6 628 739
Refuse	1 075 185	678 274
Other	9 528 222	5 477 311
	14 045 599	**12 784 324**
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	27 697 742	33 950 661
Basic electricity - non exchange	1 904 263	-
	29 602 005	**33 950 661**
Net balance	**43 647 604**	**46 734 985**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

7. Consumer debtors (continued)

Rates		
Current (0 -30 days)	8 021 364	4 642
31 - 60 days	1 380 427	2 746 647
61 - 90 days	1 302 084	1 580 461
91 - 365 days and more than 1 year	52 223 305	48 287 543
Less: Allowance for impairment	(33 847 190)	(18 667 602)
Rates correction 2018 overbilled	(1 382 248)	-
	27 697 742	**33 951 691**

Electricity		
Current (0 -30 days)	3 235 252	13 457
31 - 60 days	217 994	4 262 058
61 - 90 days	164 838	748 934
91 - 365 days and more than 1 year	3 251 775	4 451 075
Less: Allowance for impairment	(3 427 667)	(2 846 785)
	3 442 192	**6 628 739**

Refuse		
Current (0 -30 days)	271 487	745
31 - 60 days	111 962	241 780
61 - 90 days	99 244	92 405
91 - 365 days and more than 1 year	2 711 723	1 930 084
Less: Allowance for impairment	(2 119 231)	(1 586 740)
	1 075 185	**678 274**

Basic electricity - non exchange		
Current (0 -30 days)	601 300	-
31 - 60 days	173 331	-
61 - 90 days	128 269	-
91 - 365 days and more than 1 year	3 181 652	-
Less: Allowance for impairment	(2 180 289)	-
	1 904 263	**-**

Other (specify)		
Current (0 -30 days)	2 407 614	18 003
31 - 60 days	582 454	1 075 691
61 - 90 days	558 047	586 688
91 - 365 days and more than 1 year	18 541 205	15 060 415
Less: Allowance for impairment	(12 561 097)	(11 263 486)
	9 528 223	**5 477 311**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

7. Consumer debtors (continued)

Summary of debtors by customer classification

	2018	2017
Consumers		
Current (0 -30 days)	8 349 851	17 412
31 - 60 days	755 480	3 825 460
61 - 90 days	684 635	1 306 892
91 - 365 days and more than 1 year	23 812 893	21 826 277
	33 602 859	26 976 041
Less: Allowance for impairment	(15 935 863)	(12 477 164)
	17 666 996	**14 498 877**
Industrial/ commercial		
Current (0 -30 days)	6 092 375	7 005
31 - 60 days	1 652 007	4 372 937
61 - 90 days	1 507 043	1 832 501
91 - 365 days and more than 1 year	55 242 112	46 264 426
Overbilled during the current period 2018	(1 382 248)	-
	63 111 289	52 476 869
Less: Allowance for impairment	(37 657 854)	(19 522 462)
	25 453 435	**32 954 407**
National and provincial government		
Current (0 -30 days)	94 791	-
31 - 60 days	60 681	127 778
61 - 90 days	60 803	53 663
91 - 365 days and more than 1 year	854 655	1 048 433
	1 070 930	1 229 874
Less: Allowance for impairment	(541 758)	-
	529 172	**1 229 874**
Total		
Current (0 -30 days)	14 537 017	24 417
31 - 60 days	2 466 168	8 326 176
61 - 90 days	2 252 481	2 591 675
91 - 365 days and more than 1 year	79 909 662	69 739 075
Prior period error - More than 1 year	(1 382 248)	419 285
	97 783 080	81 100 628
Less: Allowance for impairment	(54 135 475)	(34 364 613)
	43 647 605	**46 736 015**
Less: Allowance for impairment		
> 365 days	(54 135 475)	(34 364 613)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(34 364 613)	(24 159 304)
Contributions to allowance	(19 770 862)	(7 840 321)
Debt impairment written off against allowance	-	(2 364 988)
	(54 135 475)	**(34 364 613)**

8. Eskom Deposits

Figures in Rand	2018	2017

8. Eskom Deposits (continued)

	2018	2017
Eskom Deposit	450 463	386 721

A security deposit of 2017/2018 R 407 455 (2016/2017: R 386 721) is held by Eskom who is the bulk electricity supplier of the municipality.

9. VAT receivable / payable

	2018	2017
VAT	(88 602)	2 626 526

VAT is payables on the payment basis. All VAT returns were submitted throughout the year.

10. Inventories

	2018	2017
Consumables	754 565	720 347

11. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property land	87 629 001	-	87 629 001	87 699 701	-	87 699 701

Reconciliation of investment property - 2018

	Opening balance	Disposals	Fair value adjustments	Total
Investment property land	87 699 701	(1 165 000)	1 094 300	87 629 001

Reconciliation of investment property - 2017

	Opening balance	Disposals	Transfers	Fair value adjustments	Total
Investment property land	87 914 701	(993 000)	(6 570 000)	7 348 000	87 699 701

Pledged as security

None of the above investment property has been pledged as a security.

There are no restrictions on the realisability of investment property or the remittance of the revenue and proceeds of disposal.

The municipality does not have any contractual obligation to purchase, construct or develop investment property or for repair, maintenance or enhancement as at the end of the period under review.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

11. Investment property (continued)

Details of valuation

The effective date of the revaluations was 30 June 2018. Revaluations were performed by an independent valuer, Manna Holdings (Pty) Ltd, that are not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on the land and improvement value methodology, referring to the costing approach i.e. the replacement value less provisional depreciation for improvements plus land value. Both the land and building costing were based on comparable data and statistical analyses.

12. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	5 975 219	-	5 975 219	5 975 219	-	5 975 219
Buildings	38 332 308	(10 984 855)	27 347 453	38 061 508	(9 713 770)	28 347 738
Plant and machinery	26 914 260	(12 346 328)	14 567 932	27 905 122	(11 754 401)	16 150 721
Motor vehicles	9 623 748	(5 334 874)	4 288 874	8 646 671	(3 918 633)	4 728 038
Office equipment	5 826 541	(5 006 755)	819 786	6 140 938	(4 101 099)	2 039 839
IT equipment	2 750 654	(1 391 487)	1 359 167	2 597 129	(1 142 719)	1 454 410
Infrastructure	1 004 078 583	(289 946 232)	714 132 351	942 828 119	(251 803 050)	691 025 069
Community	26 311 587	(4 444 757)	21 866 830	25 428 734	(3 560 492)	21 868 242
Work in progress	44 697 623	-	44 697 623	59 080 858	-	59 080 858
Leased assets	8 112 668	(5 718 815)	2 393 853	8 112 668	(4 543 281)	3 569 387
Total	**1 172 623 191**	**(335 174 103)**	**837 449 088**	**1 124 776 966**	**(290 537 445)**	**834 239 521**

12. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers received	Other changes, movements	Depreciation	Total
Land	5 975 219	-	-	-	-	-	5 975 219
Buildings	28 347 738	270 800	-	-	-	(1 271 085)	27 347 453
Plant and machinery	16 150 721	1 450 040	(2 440 902)	-	2 094 236	(2 686 163)	14 567 932
Motor vehicles	4 728 038	977 077	-	-	-	(1 416 241)	4 288 874
Office equipment	2 039 839	149 170	(463 567)	-	352 516	(1 258 172)	819 786
IT equipment	1 454 410	447 505	(293 980)	-	174 350	(423 118)	1 359 167
Infrastructure	691 025 069	2 525 457	(160 199)	58 885 206	53 889	(38 197 071)	714 132 351
Community	21 868 242	649 293	-	233 560	-	(884 265)	21 866 830
Work in progress	59 080 858	44 735 531	-	(59 118 766)	-	-	44 697 623
Leased assets	3 569 387	-	-	-	-	(1 175 534)	2 393 853
	834 239 521	**51 204 873**	**(3 358 648)**	**-**	**2 674 991**	**(47 311 649)**	**837 449 088**

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Additions from investment property	Disposals	Transfers	Revaluations	Depreciation	Additional Depreciation	Total
Land	3 675 719	-	2 299 500	-	-	-	-	-	5 975 219
Buildings	24 945 357	664 673	4 270 500	-	-	-	(1 532 792)	-	28 347 738
Plant and machinery	19 906 277	541 684	-	(2 253 837)	-	698 050	(2 601 843)	(139 610)	16 150 721
Motor vehicles	3 281 249	2 461 858	-	(104 049)	-	-	(911 020)	-	4 728 038
Office equipment	2 447 111	323 755	-	(596 075)	-	631 050	(577 300)	(188 702)	2 039 839
IT equipment	1 320 442	421 349	-	(22 261)	-	107 500	(336 787)	(35 833)	1 454 410
Infrastructure	698 451 028	977 947	-	(152 000)	18 671 431	8 577 500	(35 157 737)	(343 100)	691 025 069
Community	21 760 735	1 050 129	-	-	-	-	(942 622)	-	21 868 242
Work in progress	31 563 526	46 188 763	-	-	(18 671 431)	-	-	-	59 080 858
Leased assets	4 744 921	-	-	-	-	-	(1 175 534)	-	3 569 387
	812 096 365	**52 630 158**	**6 570 000**	**(3 128 222)**	**-**	**10 014 100**	**(43 235 635)**	**(707 245)**	**834 239 521**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

12. Property, plant and equipment (continued)

Pledged as security

None of the above property, plant and equipment have been pledged as security.

Assets subject to finance lease (Net carrying amount)

Vehicles and heavy machinery	2 393 853	3 569 387

13. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Sculptures	59 300	-	59 300	54 300	-	54 300
Artefacts	500	-	500	500	-	500
Mayoral chains	52 750	-	52 750	51 998	-	51 998
Total	**112 550**	**-**	**112 550**	**106 798**	**-**	**106 798**

Reconciliation of heritage assets 2018

	Opening balance	Revaluation increase/(decrease)	Total
Sculptures	54 300	5 000	59 300
Artefacts	500	-	500
Mayoral chains	51 998	752	52 750
	106 798	**5 752**	**112 550**

Reconciliation of heritage assets 2017

	Opening balance	Revaluation increase/(decrease)	Total
Sculptures	33 000	21 300	54 300
Artefacts	500	-	500
Mayoral chains	48 147	3 851	51 998
	81 647	**25 151**	**106 798**

Pledged as security

None of the above heritage assets have been pledged as security.

Figures in Rand	2018	2017

13. Heritage assets (continued)

Revaluations

Mayoral chains & sculptures

Heritage assets held by the municipality have an unlimited lifespan. The materials utilised in the manufacturing process are the true value of these items and the municipality valued these materials on the following.

The mayoral chains were valued by independent valuers, Messer's Benjamin Jewellers of Groblersdal, the effective date being 30 June 2018. The key values for gold was utilised per gram of gold at the spot rate R13.62/dollar. The valuations were performed utilising standards set by the Jewellery Council of South Africa of which the company is a member of.

The sculptures (memorial stones) were valued by the independent valuers, Messer's van Wyk Tombstones of Marblehall on a replacement cost value. The effective date of valuation being 30 June 2018. These items were valued utilising cost effective methods as they are relatively low value items and management deemed these valuations fair and reasonable for the items disclosed.

14. Payables from exchange transactions

Trade payables	7 835 794	21 226 490
Accrued leave	6 790 547	6 288 641
Accrued 13th cheque	1 575 038	1 748 950
Consumer Deposit repayment	-	22 645
Retentions	11 231 717	10 374 470
Credit balances on receivables	4 319 460	2 664 922
Accrued salaries	68 806	67 926
Other creditors	66 271	66 270
Unallocated deposit account	43 311	-
License and Motor vehicle agency function	460 833	83 562
	32 391 777	**42 543 876**

15. Consumer deposits

Electricity	1 399 552	1 426 273

On application for the provision of municipal services the prescribed consumer deposit shall be paid. The minimum deposit payable is determined annually by the council and is contained in the tariff book produced annually.

16. Finance lease obligation

Minimum lease payments due		
- within one year	238 348	1 827 069
- in second to fifth year inclusive	-	373 479
	238 348	2 200 548
less: future finance charges	(2 464)	(129 999)
Present value of minimum lease payments	**235 884**	**2 070 549**
Present value of minimum lease payments due		
- within one year	235 884	1 702 295
- in second to fifth year inclusive	-	368 255
	235 884	**2 070 550**
Non-current liabilities	-	368 255
Current liabilities	235 884	1 702 294
	235 884	**2 070 549**

Figures in Rand	2018	2017

16. Finance lease obligation (continued)

It is municipality policy to lease certain motor vehicles and heavy machinery under finance leases.

The average lease term was 4 - 5 years and the average effective borrowing rate was 9% (2017: 9%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 12.

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2018	2017
Unspent conditional grants and receipts		
Municipal Infrastructure Grant	1 801 783	-
Expanded Public Work Programme Grant	-	124 695
	1 801 783	**124 695**

Movement during the year

	2018	2017
Balance at the beginning of the year	124 695	9 363 891
Additions during the year	44 810 000	32 381 000
Income recognition during the year	(43 008 217)	(41 620 196)
Amount repaid to National Treasury for the period	(124 695)	-
	1 801 783	**124 695**

See note 24 for reconciliation of grants from National/Provincial Government.

18. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	17 206 381	7 416 934	24 623 315
Legal proceedings	285 568	-	285 568
	17 491 949	**7 416 934**	**24 908 883**

Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	16 808 590	-	(1 023 611)	-	1 421 402	17 206 381
Legal proceedings	805 709	285 568	-	(805 709)	-	285 568
	17 614 299	**285 568**	**(1 023 611)**	**(805 709)**	**1 421 402**	**17 491 949**

	2018	2017
Non-current liabilities	24 623 315	17 206 381
Current liabilities	285 568	285 568
	24 908 883	**17 491 949**

18. Provisions (continued)

Environmental rehabilitation provision

The environment rehabilitation provision relates to the decommissioning and rehabilitation of the landfill site situated on part of portion 476 of the Farm Loskop-Noord.

Major uncertainties surround the final decommissioning and rehabilitation costs at the end of the useful life and the remaining useful life of the landfill site.

The 2018 and 2017 valuation was performed by Mr Seakle Godschalk (*Pr Sci Nat, GIMFO)* and Dr Maryana Mohr - Swart, both partners in Environmental & Sustainability Solutions (ESS).

The effective date of the latest valuation is 30 June 2018. Unit costs for each of the cost elements are obtained annually by means of a commercial quotation. Details of this are provided separately. The CPI is used for determining the future value of current costs in the year when the cost is projected to be incurred. The CPI figure used in the GLCCM is based on the three-month average CPI for the quarter that includes the financial year-end. The average of the CPI for the last three months amounted to 4.4805%. The government bond rate most consistent with the remaining life of the landfill published at the end of the quarter that includes the financial year-end date was used as the discount rate. For this landfill the rate associated with the maximum period of 10 years was used, i.e. 2.5% above CPI. The current discount rate used for 30 June 2018 is calculated as 6.9805%

Figures in Rand	2018	2017

19. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical benefit plan.

Post retirement medical aid plan

The employer's post-employment benefit health care liability consists of a commitment to pay a portion of the pensioners' post-employment medical scheme contributions. The liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member.

Long service awards

According to the rules of the long service awards scheme, which the municipality instituted and operates, an employee (who is on the current conditions service), is entitled to a cash allowances calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service.

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-post medical aid benefit	(17 875 370)	(18 601 108)
Present value of the defined benefit obligation-long service awards	(3 401 551)	(3 195 998)
	(21 276 921)	**(21 797 106)**

Changes in the present value of the defined benefit obligation (medical aid benefit) are as follows:

Opening balance	18 601 078	17 412 447
Benefits paid	(276 763)	(270 990)
Net expense recognised in the statement of financial performance	(448 975)	1 459 621
	17 875 340	**18 601 078**

Net expense of the defined benefit obligation (medical aid) recognised in the statement of financial performance

Current service cost	1 087 428	1 094 762
Interest cost	1 840 114	1 572 422
Actuarial (gains) losses	(3 376 517)	(1 207 563)
	(448 975)	**1 459 621**

Changes in the present value of the long service award obligation are as follows:

Opening Blance	3 195 998	2 950 397
Actuarial (gains) losses – Obligation	(396 216)	(328 596)
Actuarial (gains) losses – Plan assets	601 768	574 197
	3 401 550	**3 195 998**

Net expense of the long service award recognised in the statement of financial performance

Current service cost	338 860	325 695
Interest Costs	249 034	239 226
Actuarial gains (losses)	13 874	9 276
Benefits paid	(396 216)	(328 596)
	205 552	**245 601**

Key assumptions used

Assumptions used at the reporting date:

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

19. Employee benefit obligations (continued)

Discount rates used - Post employment continued medical aid	9,75 %	9,96 %
Discount rates used - Long service leave provision	8.57%	8.44%
Normal salry rate increase	6,18 %	6,26 %
Medical cost trend rates	7.51%	8.23%

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost - Medical aid benefit	3 526 800	(2 452 400)
Effect on the aggregate of the service cost and interest cost - Long service leave benefit	634 200	(546 500)

Amounts for the current and previous four years are as follows:

	2018 R	2017 R	2016 R	2015 R	2014 R
Defined benefit obligation - Post employment continued medical aid benefit	17 875 370	18 601 108	17 412 477	13 174 000	13 683 000
Long service awards - bonus provision	3 401 550	3 156 898	2 950 397	4 177 000	4 559 000

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

20. Service charges

Sale of electricity	43 830 918	49 622 978
Solid waste - Refuse removal	3 908 793	3 228 115
	47 739 711	**52 851 093**

21. Other income

Sundry income	59 567	133 110
Staff Recoveries	418 377	-
Departmental fees	-	1 348 837
Fees	245 894	301 927
Claims of skills development	92 938	108 424
Environmental rehabilitation adjustment	-	1 023 611
	816 776	**2 915 909**

22. Interest received

Interest revenue		
Interest charged on Eskom deposit	-	16 603
Interest on cash and cash equivalents	3 750 973	5 762 979
Interest on outstanding receivable balances	6 001 823	4 960 291
Interest on investments	3 960 919	1 672 426
	13 713 715	**12 412 299**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

23. Property rates

Rates received

Agricultural	12 469 105	11 630 341
Business and commercial	9 623 497	10 722 037
Educational	-	187 027
Public benefit organisations	-	65 313
Residential	8 156 615	5 723 847
State owned	3 179 229	1 432 194
Vacant	-	1 664 288
	33 428 446	**31 425 047**

Valuations

Agricultural	2 420 033 647	1 971 244 160
Business and commercial	440 736 000	435 855 200
Educational	34 780 000	32 510 000
Municipal	34 800 500	109 860 010
Public benefit organisations	550 000	14 680 000
Public service infrastructure	1 571 100	5 309 220
Religious	26 225 000	27 138 000
Residential	972 506 000	601 047 400
State owned	4 800 000	186 964 000
Vacant	137 421 450	140 747 000
	4 073 423 697	**3 525 354 990**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2017. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. Manna Holdings Pty (Ltd) is an independant registered valuer cokpany and performed the valuation in terms of all the legal requirements.

Rates are levied on a month to month basis.

24. Government grants and subsidies

Operating grants

Equitable share	123 766 000	117 556 000
Financial Management Grant	2 145 000	1 810 000
Expanded Public Works Programme Grant	1 447 000	1 133 305
	127 358 000	**120 499 305**

Capital grants

Municipal Infrastructure Grant	43 008 217	37 720 332
	170 366 217	**158 219 637**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	46 600 217	158 130 637
Unconditional grants received	123 766 000	117 467 000
	170 366 217	**275 597 637**

Figures in Rand	2018	2017

24. Government grants and subsidies (continued)

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	9 108 011
Current-year receipts	44 810 000	29 313 000
Conditions met - transferred to revenue	(43 008 217)	(37 720 309)
Appropriated to National Treasury	-	(700 702)
	1 801 783	**-**

The grant is intended to assist the municipality in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related legislation, policies and local government turnaround strategy.

Municipal System Improvement Programme Grant

Balance unspent at beginning of year	-	255 880
Appropriated to National Treasury	-	(255 880)
	-	**-**

Conditions still to be met - remain liabilities (see note 15).

The grant is intended to assist the municipality in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related legislation, policies and local government turnaround strategy.

Financial Management Grant

Current-year receipts	2 145 000	1 810 000
Conditions met - transferred to revenue	(2 145 000)	(1 810 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 17).

The grant is intended to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act.

Energy Efficient and Demand Side Grant

Conditions still to be met - remain liabilities (see note 17).

The grant is intended to fund energy efficient lighting technologies in municipal buildings, streets and traffic lighting infrastructure.

Expanded Public Works Programme Grant

Balance unspent at beginning of year	124 695	-
Current-year receipts	1 447 000	1 258 000
Conditions met - transferred to revenue	(1 447 000)	(1 133 305)
Other - repaid to National Treasury	(124 695)	-
	-	**124 695**

Conditions still to be met - remain liabilities (see note 17).

The grant is intended to expand work creation efforts through the use of labour intensive delivery methods in identified focus areas, in compliance with the Expanded Public Works Programme Guidelines.

Figures in Rand	2018	2017

24. Government grants and subsidies (continued)

Equitable Share

Current-year receipts	123 766 000	117 467 000
Conditions met - transferred to revenue	(123 766 000)	(117 556 000)
Other	-	89 000
	-	-

In terms of the constitution, this grant is used to subsidise the provision of basic services to indigent community members.

25. Employee related costs

Basic	46 141 434	43 444 203
Acting allowances	293 444	-
13th Cheque	3 443 611	4 102 328
Medical aid - company contributions	2 507 809	2 131 576
UIF	390 297	349 365
WCA	461 891	2 100 017
Other payroll levies Bargaining Counci	24 768	6 320
Leave pay provision charge	2 241 133	-
Group life insurance	134 125	119 912
Standby allowance	342 412	247 470
Short term benefit - Cellphone allowances	597 277	529 479
Other short term costs	-	12 000
Defined contribution plans	9 010 173	7 900 538
Travel, motor car, accommodation, subsistence and other allowances - (Remapped Housing)	3 791 005	6 298 339
Overtime payments	1 723 277	1 321 490
Service cost - long service awards bonusses	338 860	1 420 457
Housing benefits and allowances (Previous under other)	448 273	410 200
SETA levies	1 456 256	581 966
Directors remuneration excluding reimbursive allowances	1 087 428	-
	74 433 473	**70 975 660**

Remuneration of Municipal manager: Mathebela MM

Annual Remuneration	873 500	821 877
Travel and subsistence allowance	89 822	94 425
Performance Bonuses	-	84 659
Contributions to UIF, Medical and Pension Funds	134 624	127 064
Other Allowances	116 699	62 689
Backpay	25 675	23 245
Salga	99	92
Leave pay out	-	61 347
	1 240 419	**1 275 398**

Remuneration of chief finance officer: Ramosibi KA

Annual Remuneration	814 631	771 760
Backpay	32 682	31 616
Travel and subsistence allowance	46 979	19 470
Contributions to UIF, Medical and Pension Funds	123 127	115 329
Leave payout	18 959	34 555
SALGA	99	92
Other allowance	17 044	-
	1 053 521	**972 822**

Figures in Rand	2018	2017

25. Employee related costs (continued)

Remuneration of Director Corporate Services: Lekola MJ

Annual Remuneration	488 464	-
Travel and subsistance allowance	17 695	-
Other allowances	14 204	-
Backpay	10 974	-
Contributions to UIF, Medical and Pension Funds	108 914	-
Acting allowance	31 977	-
SALGA	83	-
	672 311	**-**

Remuneration of Director Technical Services: Monakedi ME

Annual Remuneration	-	743 927
Travel and subsistence allowance	-	120 000
Performance Bonuses	21 905	24 949
Backpay	-	24 580
Contributions to UIF, Medical and Pension Funds	149	106 513
Leave payout	86 520	36 312
1	1 084	30 710
Other allowances	-	92
	109 658	**1 087 083**

Remuneration of acting Posion - Director of Technical services - Ramatsela TJ

Acting Allowance	5 633	-

Person acted for the period August 2017 to June 2018

Remuneration of Director Community Services : Phaahla H

Annual Remuneration	571 813	389 945
Travel and subsistence allowance	25 037	-
Performance Bonuses	41 084	20 550
Contributions to UIF, Medical and Pension Funds	140 435	62 995
Backpay	16 413	-
Other allowances	17 044	8 437
Salga	99	61
	811 925	**481 988**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

25. Employee related costs (continued)

Remuneration of Director Planning and Development -Mr S Mashiane

Annual Remuneration	194 817	-
Travel and subsistence allowance	16 290	-
Contributions to UIF, Medical and Pension Funds	20 832	-
Leave pay out	9 012	-
Other allowances	4 261	-
SALGA	25	-
	245 237	**-**

Remuneration of Employees:

The remuneration of the employees and section 57 managers are within the upper limits as determined by the framework envisaged section 219 of the Constitution.

Remuneration of acting position - Director Planning and Development - Uwane MS

Acting allowance	10 077	-

Person acted for the period January 2018 to March 2018.

26. Remuneration of councillors

Executive Mayor	858 400	787 768
Chief Whip	700 584	703 028
Executive Councillors	2 804 526	2 448 287
Speaker	699 218	596 742
Councillors	8 326 166	6 793 107
	13 388 894	**11 328 932**

In-kind benefits

Remuneration of Councillors:
The remuneration of the political office bearers and councillors are within the upper limits as determined by the framework envisaged section 219 of the Constitution. Refer to note 38 for the detailed breakdown of councillors' remuneration.

27. Depreciation and amortisation

Property, plant and equipment	47 311 650	43 969 857

28. Finance costs

Finance leases	108 403	260 528
Landfill site	1 400 118	1 421 402
Post-retirement medical aid benefit	1 840 114	1 572 422
Long service awards	249 034	239 226
	3 597 669	**3 493 578**

29. Debt impairment

Contributions to debt impairment allowance	20 840 867	9 402 871
Bad debts written off	5 785 065	-
	26 625 932	**9 402 871**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

30. Bulk purchases

Electricity	30 469 771	29 357 077

Electricity losses:

For the 2017/2018 financial year, distribution losses on electricity amounted to 6% (2016/17: 6%). The annual electricity distribution loss are made up of technical and non-technical losses which are the difference between electricity purchased and electricity sold.

31. Contracted services

Information technology services	3 623 438	2 452 436
Security (Guarding of municipal property)	5 837 055	3 312 896
Valuation Roll and GIS	195 616	800 377
Specialist services	1 304 162	1 441 891
Other Contractors	3 591 234	5 001 799
	14 551 505	**13 009 399**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

32. General expenses

Services: adverts and corporate image	596 410	461 977
Auditors remuneration	3 456 614	3 106 595
Bank charges	324 757	331 407
Cleaning	421 449	150 224
Consumer connections	-	13 862
Consulting and professional fees	3 659 144	3 266 862
Consumables	767 251	186 015
Mayoral expense	-	73 445
Entertainment	10 092	122 755
Insurance	671 877	647 127
Community development	100 350	557 744
Conferences and seminars	3 112 042	753 221
Catering	1 679 218	-
Marketing	786 302	1 258 486
Promotions and sponsorships	284 320	225 367
Skills Development Levies	675 922	-
Motor vehicle expenses	222 213	454 784
Fuel and oil	3 935 472	3 253 468
Postage and courier	200 795	220 026
Printing and stationery	68 998	614 874
Protective clothing	354 511	270 621
Royalties and license fees	47 240	-
Ward Committee stipend	1 782 000	1 535 000
CONLOG services	267 462	212 243
Staff welfare	123 996	357 571
Subscriptions and membership fees	956 930	831 432
Telephone and fax	1 155 148	1 301 528
Transport and freight	640 033	21 000
Training	531 214	695 056
Travel - local	1 497 519	750 301
Rehabilitation of landfill - current service cost	6 016 816	-
Assets expensed	50 553	-
Electricity - Now utilities	-	2 742 652
Refuse - Now utilities	-	211 440
Utilities - Other	2 907 957	-
Collection costs - Now contracted services	-	170 066
License fee to be cleared to creditor	382 476	-
Internal Audit outsourced and Audit committe	893 774	667 868
Operating leases - Now Leases on SOFP face	-	1 432 330
Sewerage consumer account - Now utilities	60 547	52 530
Water - Now utilities	-	252 691
Record management - Now contracted services	-	238 933
Strategic planning - Now contracted services	460 699	982 285
Other expenses - amounts written off by Council resolution	921 785	-
	40 023 886	**28 423 786**

33. Fair value adjustments

Investment property (Fair value model)	1 094 300	7 348 000

34. Auditors' remuneration

Fees	3 456 614	3 106 595

Figures in Rand	2018	2017

35. Cash generated from operations

(Deficit) surplus	(60 852 853)	48 416 836
Adjustments for:		
Depreciation and amortisation	47 311 650	43 969 857
Gain or (Loss) - on sale of normal and heritage assets	137 551	4 085 520
Actuarial gain / losses	(3 362 643)	(1 526 883)
Fair value adjustments	(1 094 300)	(7 348 000)
Impairment deficit	80 000 000	-
Debt impairment	20 840 867	9 402 871
Landfill interest	6 016 816	(1 023 611)
Movements in provisions	-	(520 141)
Finance charges - landfill rehabilitation	1 400 118	1 421 402
Finance charges - employee benefits	2 089 148	1 811 648
Rehabilitation provision adjustment	753 310	1 149 467
Rounding difference	3	(21)
Changes in working capital:		
Inventories	(34 218)	71 538
Receivables from non exchan\ge & consumer debtors	(4 056 346)	(8 757 136)
Receivables from non-exchange transactions and consumer debtors	(8 150 606)	(11 677 827)
Eskom deposits	(63 742)	(16 603)
Consumer deposits	(26 721)	(103 450)
Payables from exchange transactions	(10 152 099)	300 627
VAT	2 715 128	2 774 897
Unspent conditional grants and receipts	1 677 088	(9 239 196)
	75 148 151	**73 191 795**

36. Financial instruments disclosure

Categories of financial instruments

2018

Financial assets

	At amortised cost	Total
Receivables from exchange transations	815 494	815 494
Receivables from non-exchange transactions	558 927	558 927
Consumer debtors	43 674 605	43 674 605
Eskom Deposits	450 463	450 463
Cash and Cash equivalents	68 566 058	68 566 058
	114 065 547	**114 065 547**

Financial liabilities

	At amortised cost	Total
Finance lease obligation	235 884	235 884
Payables from exchange transactions	32 367 751	32 367 751
Consumer deposit	1 399 552	1 399 552
Unspent conditional grants and receipts	1 801 783	1 801 783
Taxes and transfers payable (non-exchange)	285 568	-
	36 090 538	**35 804 970**

2017

Financial assets

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

36. Financial instruments disclosure (continued)

	At amortised cost	Total
Receivables from exchange transations	430 379	430 379
Receivables from non-exchange transactions	6 489 546	6 489 546
Cash and cash equivalents	124 746 340	124 746 340
Deposits	386 721	386 721
Consumer debtors	46 736 015	46 736 015
	178 789 001	**178 789 001**

Financial liabilities

	At amortised cost	Total
Finance lease obligation	2 070 550	2 070 550
Payables from exchange transactions	42 543 873	42 543 873
Consumer deposit	1 426 273	1 426 273
Unspent conditional grants and receipts	124 695	124 695
	46 165 391	**46 165 391**

37. Commitments

Authorised capital expenditure

	2018	2017
Already contracted for but not provided for		
• Property, plant and equipment	35 366 737	23 791 743
Total capital commitments		
Already contracted for but not provided for	35 366 737	23 791 743

Authorised operational expenditure

	2018	2017
Already contracted for but not provided for		
• Security	13 106 190	18 855 831
• Consulting and training	3 375 850	4 495 939
	16 482 040	**23 351 770**
Total operational commitments		
Already contracted for but not provided for	16 482 040	23 351 770

Operating leases - as lessee (expense)

	2018	2017
Minimum lease payments due		
- within one year	906 316	-
- in second to fifth year inclusive	1 586 053	-
	2 492 369	**-**

Operating lease payments represent rentals payable by the municipality for certain of its office equipment. Leases are negotiated for an average term of 3 years. No contingent rent is payable.

38. Contingencies

Contingent Liabilities

38. Contingencies (continued)

Mohlalerwa & Boledi Construction
The municipality awarded the plaintiff a tender for the rehabilitation of an admin block. The plaintiff submitted an invoice which the municipality refused to settle on the basis that the contractor has already been paid for the work done.

The amount of potential liability remains at R 1 605 515 (2017/2018) and R 1 605 515 (2016/17).

Phillip Mphahlele
The applicant was employed by the municipality and he resigned in 2009 pending criminal investigation by the Hawks.
The Hawks did not proceed with criminal case.
The Applicant alleges that the municipality coerced him to resign and that his character has been defamed as a result of the allegations which have been investigated by the Hawks.

The amount of potential liability is R 2 105 500 (2017/2018) and R 2 105 500 (2016/2017).

Abel Sonti Ngaka
The plaintiff is an employee of the municipality and he did not report for duty and did not furnish the municipality with a medical certificate. The municipality then implemented the no work no pay principle.

The employee went to court and the demanded the salary. The estimated liability is R 0 (2017/2018) and R 10 000 (2016/2017).

Department of Water and Sanitation
The Department of Water & Sanitation sued the municipality the amount of R10 785 216.11 for the provision of water services to the municipality. municipality entered appearance to defend after applicants brought summary judgment application which was successfully opposed and municipality granted leave to defend. Municipality filed exception further on the basis that the particulars of claim does not disclose cause of action and therefore frivolous. It is the municipality's argument that EPMLM is incorrectly cited as the municipality is not water authority as the municipality does not have any contract with DWA. It is further our submission that DWA did not follow IGR processes in pursuing this matter provided for by National Treasury's intergovernmental dispute resolutions.

The amount of the potential liability remains at R10 785 216.11 (2017/2018) and R10 785 216.11 (2016/2017).

Colen Venter
The municipality was sued for an amount of R 56 000 for motor vehicle damages and the matter was resolved during the year.

The estimated liability is R 0 (2017/2018) and R 56 000 (2016/2017).

Moses Mogotleng Kgopane
The plaintiff sued the municipality the amount of R 250 000 for pain and suffering, loss of future income & others allegedly for falling into a pit which was allegedly dug and left opened by the municipal officials. The municipality is sued as the second defendant. The incident allegedly occurred on the 14 June 2014.

The amount of the potential liability remains at R 1 000 000 (2017/2018) and R 1 000 000 (2016/17). The matter is still in progress

Ramatlane Construction and projects CC
The municipality awarded the plaintiff a tender for the rehabilitation of Leeufontein Streets. The plaintiff submitted an invoice which the municipality did not settle.

The amount of potential liability is R 511 540.04 (2017/2018) and R 0 (2016/17).

Notes to the Annual Financial Statements

38. Contingencies (continued)

Alfred Mothoa
The plaintiff claims the municipal councillor has defamed his character and he claims he can no longer attend community meetings.

The amount of potential liability is R 160 000 (2017/2018) and R 0 (2016/17).

Contingent Assets

Inkonkeni Property Developers.

The municipality sued the plaintiff for the assets and development of the Extension 6. The legal process started during the 2017/2018 financial year and will be actively persued. According to Council's legal advisors, it is probable that the proceedings will result in the recovery of the full amount.

The amount of the potential assset is approximately R 36 000 000 (2017/2018). The matter is still in progress

39. Related parties

Relationships	
Accounting Officer	Refer to accounting officer's report note
Post employment benefit plan for employees	All qualifying employees
Members of key management	Refer to detail disclosure for Councillors and Management Renumeration

Remuneration of indvidual Councillors

2018

Employee Code	Initials	Surname	Salary	Allowances	Back pay	Contributions	Total
Mayor							
C000001	C	KUPA	622549,74	35400,00	25107,94	157255,32	840313,00
Speaker							
C000002	M	MOTHOGWANE	528334,92	35400,00	21886,44	95509,68	681131,04
Chief Whip							
C000003	L	MODISHA	371485,86	225795,37	21614,00	67155,36	686050,59
Executive							
C000009	M	MOTSEPE	396251,64	199251,98	21507,44	71632,32	688643,38
C000010	P	JACOBS	275054,04	38563,05	17011,20	49952,76	380581,05
C000011	G	MAKANYANE	371485,86	223241,61	21614,02	67155,36	683496,85
C000021	R	LENTSOANE	371485,86	214949,79	21614,00	67155,36	675205,01
C000023	M	MAKOLA	206290,50	116298,30	17364,74	37464,48	377418,02
Ordinary							
C000004	M	APHANE	167949,80	94284,52	15273,08	30225,24	307732,64
C000005	S	TEMA	166429,02	92498,56	15273,08	30225,24	304425,90
C000006	P	RANOTO	213583,50	115563,02	17050,68	38789,04	384986,24
C000007	M	KEKANA	166429,02	89693,08	15273,08	30225,24	301620,42
C000008	F	MATLALA	213583,50	110061,54	17050,68	38789,04	379484,76
C000012	F	MALOKA	166429,02	91298,13	15273,08	30225,24	303225,47
C000013	F	SEDIBANE	266979,48	38339,40	16776,24	48486,24	370581,36
C000014	R	MASHOESHOE	213583,50	125073,27	17050,68	38789,04	394496,49
C000015	M	MONAMA	166429,02	84349,68	15273,08	30225,24	296277,02
C000016	C	BOSHIELO	213583,50	115246,24	17050,68	38789,04	384669,46
C000017	T	MABASO	209768,43	97096,65	76000,37	46154,39	429019,84
C000018	L	MOLATUDI	213583,50	108412,65	17050,68	38789,04	377835,87
C000019	M	MASHIGO	208036,26	41897,65	15059,24	37781,52	302774,67
C000020	G	MOIMANA	164948,88	35400,00	14726,66	80868,90	295944,44
C000024	R	SEBOTHOMA	166429,02	88933,10	15273,08	30225,24	300860,44
C000025	P	MATJI	166429,02	89677,44	15273,08	30225,24	301604,78
C000026	D	MADILENG	166429,02	88646,37	15273,08	30225,24	300573,71
C000027	M	MANASOE	166429,02	88071,18	15273,08	30225,24	299998,52
C000028	L	MOHLALA	166429,02	88456,52	15273,08	30225,24	300383,86
C000029	R	SINDANA	166429,02	89705,14	15273,08	30225,24	301632,48
C000030	M	LENTSOANE	208036,26	35400,00	15059,24	37781,52	296277,02
C000031	M	PHEFADI	33662,84	4400,00	-	5940,50	44003,34
C000032	FJ	DE BEER	208036,26	35400,00	15059,24	37781,52	296277,02
C000034	E	TSHIGUVHO	198195,32	34113,68	13147,27	37677,32	283133,59
C000035	N	LETSELA	160100,38	47791,80	10039,49	28965,84	246897,51
Total			7700860,03	3018709,72	596844,81	1501141,23	12817555,79
Cellphone Data							571340,15
Total							13388895,94

2017

Employee Numbe	Name	Salary	Allowances	Back Pay	Contributions	Total
-	-	-	-	-	-	-
C000001	Mayor - Kupa C	537863,25	28998,80	1288,00	133532,65	701682,70
C000002	Chief Whip - Modis	360143,95	206665,07	1288,00	67091,24	635188,26
C000003	Speaker - Mothogw	389863,63	139702,17	1288,00	65887,98	596741,78
S101231	Mayor - Mmakola M	42342,78	36424,15	213,01	7106,36	86086,30
S101346	Chief Whip - Ratau	42342,87	18277,89	213,01	7106,37	67940,14
Executive Councillc	-	-	-	-	-	
C000009	Motsepe M	341268,55	134825,90	1288,00	61059,45	538441,90
C000010	Jacobs P	215556,25	30131,08	6309,91	35892,55	287889,79
C000011	Makanyane GN	336755,61	187328,69	1288,00	63016,29	588388,59
C000021	Lentsoane R	334856,04	156393,61	1288,00	59993,49	552531,14
C000023	Makola L	176592,40	95305,90	1288,00	32171,60	305357,90

39. Related parties (continued)

S101344	Seoka KM	28449,58	34653,88	213,01	5329,78	68646,25
S101352	Mahlobogoane ST	28449,58	35886,40	213,01	5329,78	69878,77
S101376	Makitla TS	17480,37	15531,01	213,01	3927,10	37151,49
Ordinary Councillor	-	-	-	-	-	
C000004	Aphane MA	142659,37	60196,77	6904,59	26241,67	236002,40
C000005	Tema S	149133,01	53426,26	6904,59	27384,07	236847,93
C000006	Ranoto P	142948,05	92701,35	63008,72	28057,33	326715,45
C000007	Kekana M	145606,62	77902,04	6904,59	28526,48	258939,73
C000008	Matlala F	176142,85	115850,78	46602,28	34741,60	373337,51
C000012	Makola F	139422,55	69277,96	6904,59	25670,47	241275,57
C000013	Sedibane F	183248,86	31137,82	46177,46	33404,50	293968,64
C000014	Mashoeshoe H	150867,76	77592,93	46177,46	27690,22	302328,37
C000015	Monama M	139422,55	64004,79	6904,59	25670,47	236002,40
C000016	Boshielo C	150867,76	75034,78	46177,46	27690,22	299770,22
C000017	Mabaso T	139422,55	64004,79	6904,59	25670,47	236002,40
C000018	Molatudi L	150867,76	72780,50	46177,46	27690,22	297515,94
C000019	Mashego M	168942,31	31835,08	6904,59	30879,82	238561,80
C000020	Moimana G	168942,31	29275,68	6904,59	30879,82	236002,40
C000022	Phatlane N	127778,66	72072,92	6980,73	26078,54	232910,85
C000024	Phokwane R	139422,55	69399,85	6904,59	25670,47	241397,46
C000025	Matji P	143683,88	61075,20	6945,57	26241,67	237946,32
C000026	Madileng D	139422,55	64958,89	6904,59	25670,47	236956,50
C000027	Manasoe M	142659,37	60864,57	6904,59	26241,67	236670,20
C000028	Mohlala L	139422,55	68627,97	6904,59	25670,47	240625,58
C000029	Sindana R	139422,55	64004,79	6904,59	25670,47	236002,40
C000030	Lentsoane M	176150,89	44751,00	6980,73	34614,84	262497,46
C000032	De Beer FJ	187151,44	29275,68	(14517,15)	34093,21	236003,18
C000033	Napo M	19330,03	1765,48	-	-	21095,51
S100969	Mabaso WM	4637,35	22328,61	1220,61	2284,81	30471,38
S101295	Seono MR	4637,35	23050,12	1220,61	2284,81	31192,89
S101345	Phefadi MG	194865,49	55076,97	5095,95	37917,43	292955,84
S101347	Kekana KN	4637,35	20569,12	1220,61	2284,81	28711,89
S101349	Ndobeni NR	4637,35	20569,12	1220,61	2284,81	28711,89
S101350	Chauke S	4637,35	20569,12	1220,61	2284,81	28711,89
S101353	Tshiguvho EM	4637,35	22095,67	1220,61	2284,81	30238,44
S101354	Kekana MM	4637,35	20569,12	1220,61	2284,81	28711,89
S101356	Morwaswi ME	4637,35	20569,12	1220,61	2284,81	28711,89
S101358	Nchabeleng MJ	4637,35	20569,12	1220,61	2284,81	28711,89
S101362	Mashego BG	4637,35	20937,60	1220,61	2284,81	29080,37
S101363	Bokaba HSM	4637,35	20569,12	1220,61	2284,81	28711,89
S101364	Phala MG	4637,35	20569,12	1220,61	2284,81	28711,89
S101368	Sehlola ET	4637,35	24766,72	1220,61	2284,81	32909,49
S101370	Bogopa JH	4637,35	22286,32	1220,61	2284,81	30429,09
S101371	Mphahlele LJ	4637,35	20569,12	1220,61	2284,81	28711,89
S101373	Mokonyane MJ	7874,17	16760,92	1220,61	2856,01	28711,71
S101375	Molotshwa FK	2503,02	3250,32	-	-	5753,34
S101377	Mothwa NM	7874,17	16761,10	1220,61	2856,01	28711,89
	-	6637580,74	R 2 984 378,86	R 432 707,67	1275495,41	11330162,68

Notes to the Annual Financial Statements

40. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: credit risk and liquidity risk.

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Other debtors are items was the product of overpayments and transactions that resulted in debit balances on creditors payable by the municipality. These items will be investigated for recoverability and they are currently not impaired. These items will be reported to Council during the 2018/19 financial period. These items are currently deemed recoverable but have an inherint credit risk due to the nature of the item.

During the financial year VBS Mutual bank experienced financial difficulties which led to breach of contracts when some of the matured investments and deposits could not be honoured. The reserve bank has placed VBS Mutual bank under curatorship in 2018. The Municipality had a short term deposit of R 83 658 548.00. The Municipality accounts for short term deposits as financial assets carried at amortised cost. The curator and National Treasury have only guaranteed retail depositors up to R100 000 per depositor, corporate and Municipalities deposits are not guaranteed. The Municipality has impaired the total investment of R83 658 548.00 since there are no immediate and current cash flow is expected from the VBS Mutual bank Investment.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2018	2017
VBS Bank - fully impaired on SOFP	83 658 548	-
Consumer Receivables - Other - not impaired	815 494	430 379

41. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus of R 957 767 799 and that the municipality's total liabilities exceed its assets by R 957 880 349.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

During the financial year VBS Mutual bank experienced financial difficulties which led to breach of contracts when some of the matured investments and deposits could not be honoured. The reserve bank has placed VBS Mutual bank under curatorship in 2018. The Municipality had a short term deposit of R 84 073 833.00. The Municipality accounts for short term deposits as financial assets carried at amortised cost. The curator and National Treasury have only guaranteed retail depositors up to R100 000 per depositor, corporate and Municipalities deposits are not guaranteed. The Municipality has impaired the total investment of R84 076 833.00 since there are no immediate and current cash flow is expected from the VBS Mutual bank Investment.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

42. Unauthorised expenditure

Unauthorised expenditure	-	-

43. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure Opening Balance	44 224	-
Interest on overdue accounts raised	-	44 224
Condoned by Council	(44 224)	-
Amount written off by Council	(12 114)	-
Add: Fruitless and wastefull expenditure for 2017/18 financial period	209 439	-
	197 325	**44 224**

The opening balance of the fruitless and wasteful relate to 2016/17 which was condoned by council. MPAC investigated fruitless and wasteful expenditure as delegated by council, They concluded that none occurred as a result of deliberate wrong doing or negligence and recommended to council to write off. It was results interest on invoices of Eskom and Telkom, and also erratum issued for advertisements. Council wrote off fruitless and wasteful expenditure.

The current year fruitless and wasteful expenditure of R12114 was referred to MPAC for further investigation. MPAC investigated fruitless and wasteful expenditure as delegated by council, They concluded that none occurred as a result ofdeliberate wrong doing or negligence and recommended to council to write off. Council condoned the expenditure as recommended by MPAC

Fruitless and wasteful expenditure consists of

Interest on overdue accounts	12 114	9 505
Misuse of fuel cards	197 325	-
Cancellation of flights	-	1 500
Erratum on tender advertisements	-	29 299
Officials did not attend training	-	3 920
Amount written off by council	(12 114)	-
	197 325	**44 224**

44. Irregular expenditure

Opening balance	3 693 088	44 966 567
Add: Irregular Expenditure - current year	20 966 377	3 693 088
Less: Amounts condoned	(3 693 088)	-
Less: Amounts not recoverable (not condoned)	-	(44 966 567)
	20 966 377	**3 693 088**

Analysis of expenditure awaiting condonation per age classification

Current year	3 608 044	-
Prior years	-	3 693 088
	3 608 044	**3 693 088**

44. Irregular expenditure (continued)

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Maesh (pty) ltd	Unfair practice exercise - Open tender did not run for 30 days	567 360
NJ Nkosana business enterprise	Unfair practice exercise - Open tender did not run for 30 days	384 035
Manthabo2 airconditioning	Amount paid to supplier exceeded the contract value	261 086
EMC Consulting Engineers	Unfair practise exercised- The supplier attached copies of certified ID copies	370 108
Pheladichuene maintenance and general supplier	Local content threshold not indicated	47 240
Environmental and sustainablity solutions	Three quotations were not obtained	41 688
KDM Travels Express	Three quotations were not obtained	199 600
Transnet	Payments made to supplier even though contract had expired	647 970
Mayivuthe Contractors	Competetive bidding - Invitations to quote did not specify the minimum threshold for local production and content	1 088 957
Mothakge Phadima Construction	Bid adjudication committee did not consist of at least four senior managers in accordance with the SCM policy	11 113 870
AL Mphago Civil Construction JV Kgantsha Developers	Bid adjudication committee did not consist of at least four senior managers in accordance with the SCM policy	5 161 907
Dolmen Engineers cc	Bid adjudication committee did not consist of at least four senior managers in accordance with the SCM policy	604 631
RPS Switchgear SA	The Service Provider did not meet the minimum threshold for local production and content of 100%	477 925
		20 966 377

Details of irregular expenditure written off

	Condoned by (condoning authority)	
The opening balance of irregular expenditure relates to 20162017. MPAC investigated the irregular expenditure as delegated by council. They concluded that none of the irregular expenditure was as a results of deliberate wrong doing or negligence and therefore recommended to council to write off expenditure incurred. Accordingly council wrote off irregular expenditure and further recommended that SCM Officials be taken to trainings often.	Condoned by Council	3 693 088

45. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2018	2017
Current year subscription / fee	823 217	657 460
Amount paid - current year	(823 217)	(657 460)
	-	-

Figures in Rand	2018	2017

45. Additional disclosure in terms of Municipal Finance Management Act (continued)

Audit fees

Current year subscription / fee	3 456 614	3 106 595
Amount paid - current year	(3 456 614)	(3 106 595)
	-	-

PAYE and UIF

Current year subscription / fee	11 914 307	11 956 239
Amount paid - current year	(11 914 307)	(11 956 239)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	21 499 113	17 331 171
Amount paid - current year	(21 499 113)	(17 331 171)
	-	-

VAT

VAT receivable	-	2 626 526
VAT payable	(88 602)	-
	(88 602)	**2 626 526**

VAT output payables and VAT input receivables are shown in note 7.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

No councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

Supply chain management regulations

IParagraph 36(2) of SCM regulation states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that the accounting officer records the reasons for any deviations and then reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.
In terms of section 36(1)(a) of the Supply Chain Management Regulations, the accounting officer may dispense with the official procurement processes in the following instances:

- Sole suppliers
- Emergency
- Impracticality

In terms of section 36 of the Municipal Supply Chain Management Regulations, any deviation from the supply chain management policy needs to be approved/condoned by the accounting officer and noted by Council. Deviations from the official procurement process during the financial year were approved by the accounting officer and noted by council in terms of the delegations as stipulated in the Supply Chain Management Policy and amount to approximately the following:

Incident		
Emergency	18 674	-
Sole supplier or agent	448 334	555 854
Impossible or impractical	1 146 279	1 037 724
	1 613 287	**1 593 578**

Figures in Rand	2018	2017

46. Budget differences

Material differences between budget and actual amounts

1. More provision was made on acquisition of assets than what was received.

2. Variance is as a results of private uses, spending more on electricity.

3. The variance is as a result of increase in Municipal tariffs for hiring of municipal halls that were designed to be cost reflective.

4. Variance is as a results of reclassifying money received on behalf of department of transport from income to liability.

5. Variance is as a results of other revenue collected more than anticipated.

6. Interest variance on investment is caused by not receiving all interest VBS Bank.

7. Variance is as a result of continued data cleansing and supplementary valuation roll.

8. Variance is caused by unspent MIG Grant. The municipality spent 96% on MIG

9. Variance is as a result of budgeting fines on cash basis whereas the actual figures are on accrual basis.

10. Variance is as a results of vacant positions that were not filled in 2017/2018 financial year. E.G senior manager planning and infrastructure.

11. Councilor’s remuneration is based on government gazette on upper limits for councilors

12. Variance is as a result of low budgeting on non-cash items.

13. Variance is as a result of the impairment VBS Bank.

14. Variance is as a results of interest incurred on lease which was budgeted under General expenditure

15. Variance is as a result of including lease expenditure under general ledger

16. Variance is as a result of underestimate of bad debts written off.

17. Repair and maintenance are done as and when need arises the variance is the saving.

18. Less electricity was purchased by our customers that anticipated

19. The variance is as a result of the reclassifying of expenditure on contracted services to general expenses.

20. Free basic electricity paid was less that the target

21. Variance is caused by incorrectly budgeting for separate line items inside general expenditure

22. Variance is caused by incorrectly budgeting for separate line items inside general expenditure

23. . Actuarial Gain/ (Losses) variance arises as a results of budgeting it under general expenditure instead of a separate line iterm.

24. The variance in total assets is caused by over estimate in budget.

Figures in Rand	2018	2017

46. Budget differences (continued)

25. The variance in total liabilities is caused by overestimate in budget

26. The variance is coused by overestimate in both total assets and total liabilities

27. The variance on the operating activities is as a result of savings on supplier's payment.

28. The variance on the investing activities is as a result of spending on capital expenditure.

29. The variance on financing activities is as a result of paying finance leases

30. The variance is result of more estimate on cash and cash equivalents at the beginning of the year.

47. Prior-year adjustments

Presented below are those items contained in the statement of financial position and statement of financial performance that have been affected by prior-year adjustments:

Prior period error corrections

2017

	Note	Amount previously reported 2016/2017	Correction of error	2015/2016 Error restated
Statement of Financial Position		-	-	-
1. PPE - additional assets identified		10 014 100	1 014 100	1 014 100
PPE - Accumulated depreciation - Additional assets		(707 246)	(707 246)	-
2. Retention reduced - asset decapitalised		(233 379)	(233 379)	-
3. Work in progress - Assets expensed 2016/17		(911 784)	(911 784)	-
4. Trade and other receivables from non exchange - Correction of accrued revenue to accumulated surplus		1 030	1 030	1 030
5. Payables from exchange transactions - retention reduced		233 379	233 379	-
6. Investment properties		(663 000)	(663 000)	-
Statement of Financial Performance		-	-	-
1. Strategic planning - additional projects from assets		911 784	911 784	-
2. Depreciation - Direct to income statement		707 246	707 246	-
3 Investment properties - Profit / Loss on disposal of fixed assets		663 000	663 000	-
		10 015 130	**1 015 130**	**1 015 130**

Restatement of prior period disclosure items

47. Prior-year adjustments (continued)

2017

	Note	Amount previously reported 2016/2017	2015/2016 Error restated	Reclassifications restated 2016/2017
Statement of Financial Performance		-	-	-
Other income		3 382 928	(467 019)	2 915 909
Sale of goods		-	467 019	467 019
Ward committee stipend		-	1 535 000	1 535 000
Conferences and Seminars		753 211	750 301	1 503 522
Travel Local		750 301	(750 301)	-
Marketing		2 793 486	(1 535 000)	1 258 486
Statement of Financial Position		-	-	-
Trade and other receivables from exchange transaction		13 214 703	-	430 379
Consumer receivables from exchange transaction		-	-	12 785 354
Trade and other receivables from non exchange transaction		40 440 207	-	6 489 546
Consumer debtors receivables from non exchange transaction		-	-	33 950 661
Surplus for the year		**61 334 836**	**-**	**61 335 876**

Errors

The following prior period restatements occurred:

1. The assets was restated from the floor as new found items. The items were corrected as from 1 July 2017. This resulted in an increase in assets value of R 10 014 100 for 2015/16 and 2016/17. The additional assets increased the depreciation charge with R 707 246 for the 2016/17 financial period. This additional depreciation increased the depreciation with R 707 246 for the financial period. The relevant impact on the accumulated surplus was R 10 014 100 for the 2015/16 financial period. The asset adjustment for the 2016/17 financial period resulted in net adjustment of R 9 306 845 for the 2016/17 financial year.

2 & 5. Roads master plan and N11 dualisation projects were de-capitalised during the year. The expenditure for the 2016/17period was moved to strategic expenditure for the 2016/17 period. The effect was a decrease in work in progress assets of R 911 785 and an increase of General expenses- strategic planning of R 911 785.

4. With the conversion of balances to mscoa accrued revenue to the vaue of R 1 030 was found to be revenue for the 2015/16 financial period and was corrected to accumulated surplus for 2015/16 and 2016/17.

6 & 3. Investment properties were sold but not accounted for during 2016/17 due to late registrations. The additional disposals amounted to R 663 000 and increased the loss on disposal and investment property for the 2016/2017 financial period.

47. Prior-year adjustments (continued)

Reclassifications

The following reclassifications adjustment occurred:

The consumer debtors were restated as the rates was previously indicated as trade and other receivables

Consumer debtors were split into items from exchange and non exchange items.

Minor restatement items were indicated in the Statement of Financial Performance.